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WESTLAKE FINANCIAL SERVICES

**UNITED STATES DISTRICT COURT**

**CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION**

WESTLAKE SERVICES, LLC d/b/a  
WESTLAKE FINANCIAL SERVICES,

Plaintiffs,

vs.

CREDIT ACCEPTANCE  
CORPORATION,

Defendant.

Case No. 2:15-cv-07490 SJO (MRWx)

**SUPPLEMENTAL MEMORANDUM  
PURSUANT TO LOCAL RULE 37-2.3  
IN SUPPORT OF WESTLAKE'S  
MOTION TO COMPEL  
PRODUCTION OF DOCUMENTS  
AND THINGS**

Assigned to Hon. Michael R. Wilner

Discovery Cutoff: March 31, 2017  
Pretrial Conference: August 28, 2017  
Trial: September 11, 2017

1 CAC commercially exploited and publicly used its claimed invention, CAPS, more  
 2 than a year before it even thought to apply for a patent on it. By that time, in late  
 3 November 2001, nearly three-quarters of all its deals were being originated through CAPS,  
 4 and it therefore had an irresistible incentive to get patent protection on it so that it could  
 5 exclude others from practicing the embodied methods. But since public use and prior sales  
 6 of an invention more than a year before filing a patent application on it is a bar to  
 7 patentability, CAC knew it had a big problem. What happened next—i.e., that CAC  
 8 purposely withheld that material information from the Patent Office to obtain the '807  
 9 Patent—can be reasonably inferred from the record. The following facts are unrefuted:

- 10 • In or around December 4, 2001, CAC's executives, including Keith  
 11 McCluskey, conferred with CAC's in-house counsel and others about the  
 12 "less than one-year requirement for patent protection." (Dkt. 102-2, Exh. L.)
- 13 • CAC applied for a patent on CAPS on December 31, 2001.
- 14 • At the time it applied for the '807 Patent, CAC knew that prior sales and  
 15 public use of an invention more than a year before applying for a patent on it  
 16 could prevent it from getting a patent. (Dkt. 102 at 22.)
- 17 • CAC had a duty to disclose information material to patentability to the Patent  
 18 Office. 37 C.F.R. § 1.56.
- 19 • Neither Credit Acceptance nor its agents disclosed its pre-December 31,  
 20 2000 activities relating to CAPS to the Patent Office. (Dkt. 102 at 22; Yoo  
 21 Decl., Exh. A ["Zura Tr."] at 23:4-23; 31:20 – 34:20.)

22 CAC's outside lawyer that prosecuted the '807 Patent Application from October  
 23 2004 until it issued in September 2005 testified at deposition that: (i) he was not familiar  
 24 with CAPS (*id.* at 31:20-22); (ii) information implicating the patentability of a claimed  
 25 invention, whether material or not, should be disclosed to the Patent Office (*id.* at 38:1 –  
 26 40:9); and (iii) the sale or public use of an invention more than one year before the  
 27 application date for a patent would be material to the patentability of that invention (*id.* at  
 28 40:11 – 41:5). Based on the foregoing, there are only three plausible scenarios for CAC's

1 allegedly privileged communications around the prosecution of the '807 Patent, in  
2 decreasing likelihood:

3 (1) CAC never told its patent-prosecution counsel about its pre-December 31,  
4 2000 activities relating to CAPS;<sup>1</sup>

5 (2) CAC told its patent-prosecution counsel about its pre-December 31, 2000  
6 activities relating to CAPS, was advised that it should disclose that information to the  
7 Patent Office, but nevertheless instructed its counsel to withhold the information; or

8 (3) CAC told its patent-prosecution counsel about its pre-December 31, 2000  
9 activities relating to CAPS and was advised that it did not have to disclose that information  
10 to the Patent Office.

11 The first two scenarios amount to fraud sufficient to pierce the privilege under the  
12 crime-fraud exception, since CAC knew it had a duty to disclose all information material  
13 to patentability to the Patent Office and submitted two declarations attesting it would do  
14 that. The third scenario, which is a possible defense to Westlake's allegations if true, is  
15 unlikely, as CAC has staunchly refused to say whether it intends to rely on an advice-of-  
16 counsel defense in this action. CAC now belatedly contends that it prosecuted the '807  
17 Patent in good faith, which impliedly waives its privilege assertions, and provides this  
18 Court with a separate basis for compelling production.

19 Accordingly, Westlake requests *in camera* review of entries 9-25 in CAC's  
20 privilege log to determine if the crime-fraud exception to the attorney-client privilege  
21 applies. If the Court finds that the exception does apply, Westlake further requests an  
22 order requiring CAC to produce all documents falling within the exception, and allowing  
23 Westlake to conduct related follow-on discovery. Alternatively, Westlake requests that the  
24 Court find that CAC has waived its assertions of privilege assertions and thereupon order  
25 immediate production of documents relating to the prosecution of the '807 Patent.

26  
27 <sup>1</sup> At his deposition, CAC's 30(b)(6) witness would not confirm that CAC had ever  
28 disclosed that information to its patent-prosecution counsel. (Dkt. 102 at 22.)

## LEGAL STANDARD

To show that the crime-fraud exception applies, Westlake must make a *prima facie* showing through independent and clear evidence<sup>2</sup> of deceptive intent together with a clear showing of reliance. *See Unigene Labs., Inc. v. Apotex, Inc.*, 655 F.3d 1352, 1358-59 (Fed. Cir. 2011). But a “party seeking to overcome the attorney-client privilege need not conclusively prove fraud, or necessarily submit direct evidence in order to make the required *prima facie* showing.” *Spalding Sports*, 203 F.3d at 808. And since there is “virtually no way in which the exception can be proved, save by compelling disclosure of the contents of the communication,” the Supreme Court has authorized district courts to first conduct *in camera* inspections of challenged documents to determine if the crime-fraud exception applies. *United States v. Zolin*, 491 U.S. 554, 566 (1989).

The threshold showing required to trigger *in-camera* review is a “showing of a factual basis adequate to support a good faith belief by a reasonable person . . . that in camera review of the materials may reveal evidence to establish the claim that the crime-fraud exception applies.” *Id.* at 572 (internal citations and quotations omitted). Importantly, (i) “a lesser evidentiary showing is needed to trigger *in camera* review than is required ultimately to overcome the privilege,” (ii) a small “volume of materials” weighs in favor of *in camera* review, and (iii) courts should consider in their analyses “the relative importance to the case of the alleged privileged information.” *Id.*

## ARGUMENT

### A. The evidence is sufficient to warrant *in camera* review.

Whether it thought the information was disqualifying or not, CAC should have

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<sup>2</sup> “Such independent and clear evidence must establish a *prima facie* case of fraud, which is ‘generally held not to exist’ unless the accusing party can show: ‘(1) a representation of material fact, (2) the falsity of that representation, (3) the intent to deceive or, at least, a state of mind so reckless as to the consequence that it is held to the equivalent of intent (scienter), (4) a justifiable reliance upon the misrepresentation by the party deceived which induces him to act thereon, and (5) injury to the party deceived as a result of his reliance on the misrepresentation.’” *Unigene*, 655 F.3d at 1359 (quoting *In re Spalding Sports Worldwide, Inc.*, 203 F.3d 800, 807 (Fed. Cir. 2000)).

1 disclosed its pre-December 31, 2000 CAPS-related activities to the Patent Office, as those  
2 activities undoubtedly implicated the patentability of CAPS, and were therefore material.  
3 For instance, an invention is not eligible for patent protection if it was (1) in public use  
4 while (2) ready for patenting more than one year prior to the date of the patent application.  
5 35 U.S.C. § 102(b); *see Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998). The test for  
6 “public use” is whether the purported use (i) was accessible to the public or (ii) was a  
7 commercial exploitation of the invention. *See Invitrogen Corp. v. Biocrest Manufacturing*  
8 *L.P.*, 424 F.3d 1374, 1376 (Fed. Cir. 2005). An invention is “ready for patenting” when it  
9 has been reduced to practice or if there are enabling disclosures. Even a prototype, if it is  
10 reduced to practice and works for its intended purpose, can be considered “ready for  
11 patenting” for purposes of a 102(b) statutory bar. *See, e.g., Atlanta Attachment v. Leggett*  
12 *& Platt*, 516 F.3d 1361 (Fed. Cir. 2008). As explained in Westlake’s motion to compel,  
13 CAPS was both ready for patenting and commercially exploited by CAC as of August  
14 2000 and well before the critical date. (Dkt. 102 at 21.) Westlake has likewise adduced a  
15 trove of evidence reflecting CAC’s intent to deceive the Patent Office. (*Id.* at 20-22.)

16 Moreover, the Patent Office relied on CAC’s material omissions: (1) the file history  
17 of the ’807 Patent reflects that no information pertaining to an on-sale/public-use bar was  
18 ever presented to the Patent Office (Zura Tr. at 34:6 – 35:11); (2) the Patent Examiner did  
19 not ever cite prior sales or public uses of the invention in its list of references considered  
20 (*id.* at 21:11 – 23:3); and (3) the ’807 Patent issued, even though CAC’s pre-December 31,  
21 2000 activities relating to CAPS would have otherwise prevented a patent from issuing on  
22 CAPS. That CAC had an internal discussion concerning the “less than one-year  
23 requirement for patent protection” in December 2001 and yet did not disclose its  
24 disqualifying prior use of CAPS impels the conclusion that something untoward happened  
25 during the prosecution of the ’807 Patent, and especially during and relating to allegedly  
26 privileged communications with counsel. Hence, Westlake has a reasonable good faith  
27 belief, based on its adduced evidence, that a review of the communications around the  
28 prosecution of the patent will reveal the fraudulent nature of CAC’s conduct.

**B. CAC has nevertheless impliedly waived its claims of attorney-client privilege.**

This Court has a separate basis to require CAC to immediately produce its allegedly privileged documents: on March 9, 2017, CAC served supplemental responses to Westlake’s Interrogatory No. 5 that impliedly waive the attorney-client privilege over documents relating to the prosecution of the ’807 Patent. In its Responses, CAC asserted as an affirmative defense that it prosecuted the ’807 Patent in good faith. (Yoo Decl. ¶ 5.)

CAC is therefore not merely denying that its conduct was undertaken in bad faith, but is instead affirmatively contending that it acted in good faith in seeking a patent and prosecuting the ’807 Patent. CAC also does not (and cannot) dispute that it received legal advice concerning its application for the ’807 Patent. CAC has therefore waived the privilege as to documents and information relating to its subjective state of mind. *See Chevron Corp. v. Pennzoil Co.*, 974 F.2d 1156, 1162-63 (9th Cir. 1992) (“Where a party raises a claim which in fairness requires disclosure of the protected communication, the privilege may be implicitly waived.”). In nearly identical circumstances, courts have found that defendants waive privilege by asserting good faith as a defense. Those purporting to obtain a patent in good faith cannot simultaneously deny their counterparty the right to discovery into their subjective state of mind. *See, e.g., Pall Corp. v. Cuno Inc.*, 268 F.R.D. 167, 169 (E.D.N.Y. 2010) (finding waiver where, in response to allegations of inequitable conduct, plaintiff asserted good faith defense); *Echometer Co. v. Lufkin Indus., Inc.*, No. 7:00-CV-0101-R, 2002 WL 87323, at \*2 (N.D. Tex. Jan. 16, 2002) (same). Where a party “uses an assertion of fact to influence the decisionmaker”—e.g., an allegation of good faith—“while denying its adversary access to privileged material potentially capable of rebutting the assertion, notions of fairness are implicated that impliedly waive” privilege.<sup>3</sup> *See Pall Corp.*, 268 F.R.D. at 169 (citations omitted).

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<sup>3</sup> That CAC does not explicitly plead an affirmative defense based on advice of counsel is irrelevant. *See Olvera v. County of Sacramento*, No. CIV. 10-550 WBS CKD, 2012 WL 273158 (E.D. Cal. Jan. 30, 2012); *In re G-I Holdings Inc.*, 218 F.R.D. 428, 432-33 (D.N.J. 2003).

1 DATED: March 15, 2017

Respectfully Submitted,

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3 Drooks, Lincenberg & Rhow, P.C.

4  
5 By: /s/ Timothy B. Yoo

6 Timothy B. Yoo  
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